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As I sell

THE EFFECT OF THE ELECTION ON REAL ESTATE

MORE than eleven years ago I published a bulletin headed "Real Estate Cycles and Politics." In this bulletin I pointed out the effect of the real estate cycle on elections. The chart shown across the bottom of the center pages of this report was first published at that time. This chart has been brought up to date, and it is not too difficult to see why the election went as it did. The two columns at the bottom of this chart have been added since its publication in 1937, and these columns show the percentage of both electoral and popular votes received by the winning candidate.

I think it might be interesting to pick up verbatim our explanation of this chart and its significance as we wrote it in 1937:

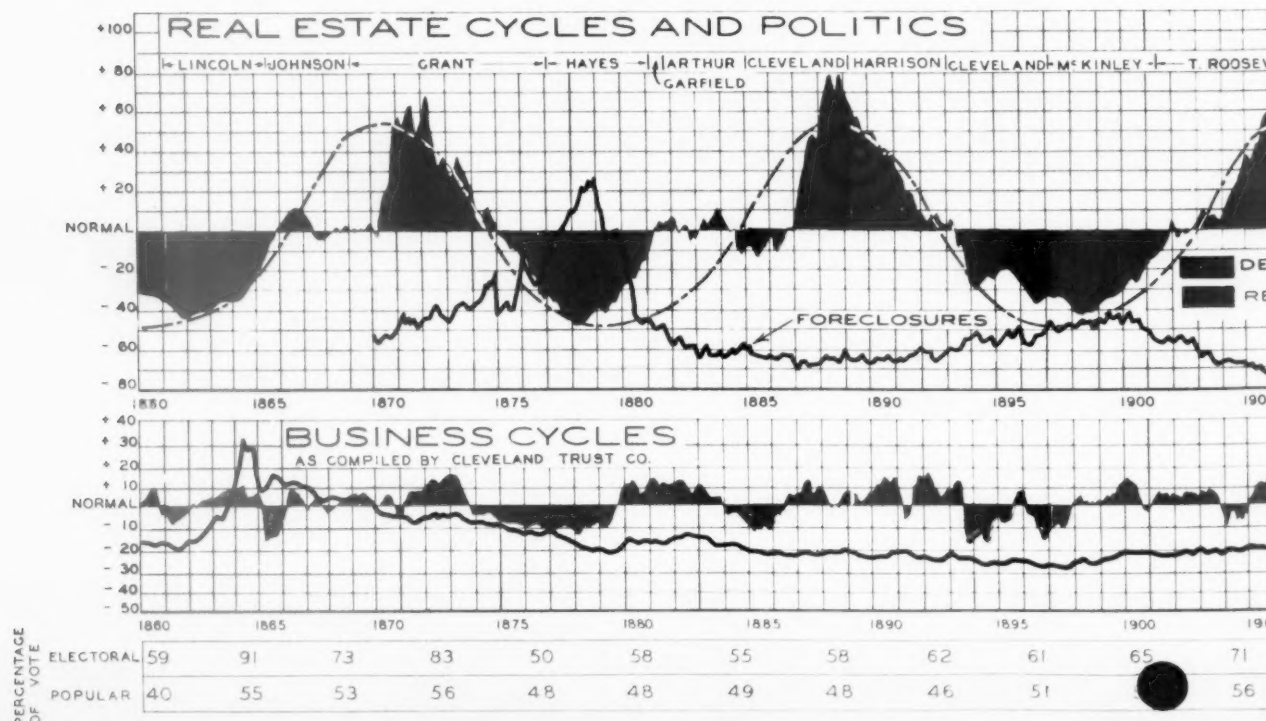
... Let us study the fluctuations of real estate in relation to the political party in power. In 1861 Lincoln took office at about the bottom of the real estate cycle and at the beginning of the Civil War. It is rather remarkable that in spite of the war, real estate activity improved gradually, swinging into the real boom in the administration of Grant. There is some doubt as to whether the Republicans could have withstood the tremendous depression of the seventies had not the Democrats been entirely demoralized by the Civil War. Ordinarily we would have expected the constantly declining business during Grant's second administration to have changed the party in power.

The boom in real estate in the late eighties started under the administration of Grover Cleveland, a Democrat, and reached its height during the last full year of his administration. He was followed by Harrison, a Republican, who unfortunately from his standpoint, held the presidency during a period of recession. The electorate, contrasting this decline with the increasing activity under Cleveland, returned Cleveland to the White House for a second term. However, since real estate follows a long cycle, the decline continued under Cleveland and the electorate again became displeased and returned the Republicans to office with McKinley, followed by Theodore Roosevelt. McKinley and Roosevelt were quite fortunate in being elected when the

natural cycle was upward and they received the credit for the improvement in conditions. On the strength of this improvement, Roosevelt was elected to a second term, and in spite of the fact that we were then in the downward swing of the cycle. As activity went lower, however, the people again became displeased and elected Woodrow Wilson, a Democrat, to the White House. While real estate continued to sink under Wilson, war prosperity and the inadvisability of "swapping horses in the middle of the stream" carried Wilson through to a second term.

The Republicans came back to power after this long depression and Harding was followed by Coolidge, who, because of the general prosperity for which he was in no way responsible, was elected to a second term. Hoover was carried into office on the ebb of this prosperity and was then quite unfortunate, as the natural cycle was downward during his entire administration and nothing he could do could stop it. Franklin Roosevelt was elected at the turning point and, in spite of the many experiments which have undoubtedly had some effect in retarding business, the pull of the natural cycle was so great that conditions improved rapidly, carrying Roosevelt into a second term with a possibility that he may be carried into a third term on the boom cycle now slowly developing and which will probably not be reversed in direction until after the next presidential election. . .

The real estate or capital goods cycle appears to be so fundamental that presidents and political parties are made



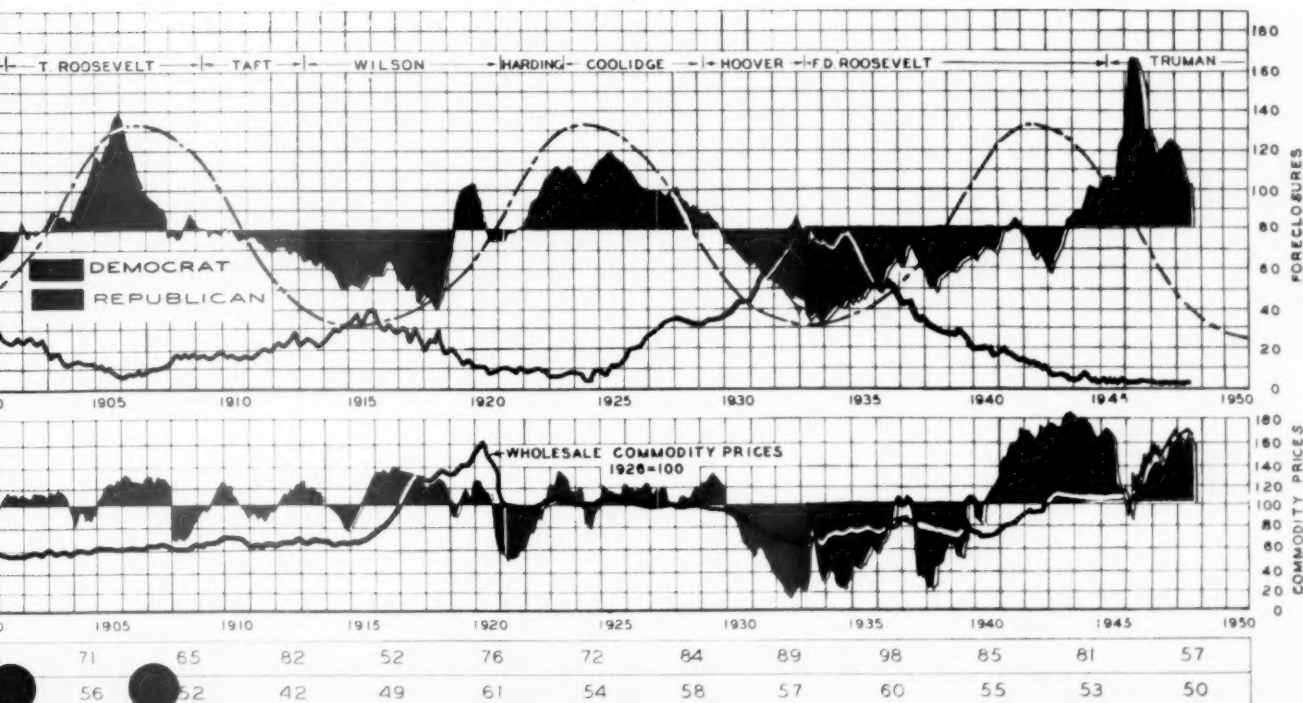
and broken by it rather than presidents and political parties making the cycle. If a president comes into office during the up-swing, he has a very good chance to become popular and to retain the presidency for a second term. If he comes into office as the general cycle is on the down-swing, none of his policies will apparently bring prosperity and the electorate blames the administration. The movement now is so definitely up that even major mistakes on the part of the administration will not halt the recovery.

While according to our charted cycle, real estate activity has passed the peak, real estate prices have not yet shown much decline, the housing shortage is still with us and construction costs are still rising. General business is still in a strong boom position and apparently it is still almost impossible to put an administration out of office near the peak of a period of prosperity.

But what of the future? - And again I come back to the same general refrain I have been singing for some time, "no boom lasts forever." In my opinion, however, the re-election of President Truman, together with the strong Democratic majorities in the House and Senate, will result in further inflation. Certainly the policies the President advocated in his campaign are almost all inflationary. I have listed some of the more important ones below.

1. Repeal of the Taft-Hartley Act. This, in my opinion, will increase labor difficulties and will act as a deterrent to an increase in production per man hour.

2. An increase in the minimum wage to 75¢ an hour. This, in certain areas and on certain types of work, will certainly increase costs and, accordingly, prices.



3. An increase in pay for government employees. While this might be justified, these salaries can be paid only by increased taxation.

4. The President definitely stated that farm price supports have not caused high prices and that he favored their continuance. In my opinion, these price supports have been on too high a level and can only be continued at considerable subsidy cost to the government, with high prices for food in the cities.

5. The extension of Social Security to everyone in the nation, with a 50 per cent increase in benefits.

6. An increase in unemployment insurance.

7. A system of medical insurance.

8. A vast system of public works.


9. A large subsidized public housing program.

While the President has given constant lip service to the control of inflation, the methods of control he is constantly discussing are attempts to treat its symptoms rather than its causes.

It did seem to me that the inflationary and deflationary factors in our economy were pretty much in balance, with the probability that in 1949 the deflationary factors would for the first time since the war gain the ascendancy. It now seems to me that our economy will get another inflationary shot in the arm, but sooner or later the effect of the stimulants will wear off. My guess would be that 1949 will now see a continuation of inflationary pressures, with the possibility that they may carry over into 1950. I will be very much surprised, however, if the President can wield the hypodermic skillfully and often enough to carry us through his four-year term.

In view of the election, my advice on real estate would be as follows: Sell older housing. Sell apartments (rent control will certainly be continued for some time longer). Hold office buildings and hotels. Good store properties are probably at or past their peak - should be sold if the main objective is the securing of the maximum price. Farms are near or at their peak, but the strong coalition between the farm and labor vote suggests that the farmer will receive the maximum of political consideration during the next four years, together with sizable subsidies. Under these conditions there might be some justification for the continued ownership of good farms.

The election has made me more optimistic for 1949, and more pessimistic for the long pull.


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